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RUEHAK/AMEMBASSY ANKARA 1435
RUEHBJ/AMEMBASSY BEIJING 1476
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UNCLAS SECTION 01 OF 02 DUSHANBE 000482

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SUBJECT: TAJIKISTAN: IMF SEES ECONOMIC PROGRESS AND GROWTH

REF: DUSHANBE 0321

DUSHANBE 00000482 001.2 OF 002

¶1. (SBU) SUMMARY: Washington-based International Monetary Fund (IMF) Tajikistan Country Director Carlos Pinerua gave an upbeat assessment of Tajikistan's economy but remained concerned about regulatory hurdles and lack of diversification for continued growth. Pinerua painted a positive picture of the strong GDP growth, increased tax collection and expanding production. The IMF still worries, however, about the inadequate regulatory framework, reliance on large infrastructure projects, and the concentration of wealth in 1,000 families. The IMF will consider arranging a one-day crash course on substantive economic reform to the newly appointed and highly influential Presidential economic advisor Davlatov. END SUMMARY.

TAX COLLECTION, CONSUMPTION, PRODUCTION UP

¶2. (SBU) Accompanied by IMF resident representative Samat Khawaja, during a March 9 meeting with the Ambassador, Pinerua confirmed that tax revenues were up this year - and not just because Tajikistan Aluminum Plant (TadAZ) has begun paying taxes. Pinerua credited increased tax collection in all sectors, except for agriculture, to growing consumption fueled by even higher remittances from abroad. Revenues from the Value Added Tax (VAT), in addition to the increase in the price of aluminum, fueled this increase. Pinerua said that taxes for TadAZ are now based on international aluminum prices.

¶3. (SBU) The IMF predicts 8 percent growth and 7 percent inflation for 2006. GDP growth remained high at 6.3 percent for January and February. Tajikistan's fruit and vegetable exports

to Russia this year are expected to double because of freezing weather in that country over the winter. In particular, Tajikistan may export 90,000 tons of potatoes and up to 120,000 tons of onions due to lowered Russian tariffs. (COMMENT: This will put upward price pressure on local produce in markets by summer that will impact domestic consumers. END COMMENT.)

REGULATORY ENVIRONMENT, DIVERSIFICATION CONCERNS

14. (SBU) Without a better regulatory framework, economic growth in Tajikistan will be delayed, according to Pinerua, because "nobody is sure about the rules of the game." Pinerua said the government should play a role in the regulatory process, but the involvement of some officials presents a troubling conflict of interest. The opening of the aviation sector would be a good step in the right direction.

15. (SBU) Pinerua stressed that while big infrastructure investment - such as hydropower - is important, broader based economic development is essential for sustainable growth that reaches the entire population. Khawaja pointed out that approximately 1,000 families in Tajikistan control the economy: e.g., one family for air transport, one family for grain, a few families for cotton. The massive profits accruing to few individual accounts for most of the new ostentatious private residences being built in Dushanbe.

ROGUN

16. (SBU) The IMF was skeptical about Russian Aluminum's (RusAl) cost benefit assessments for its proposed Rogun hydropower plant, but noted the company could be looking at the longer term (15-20 years). Pinerua said the pricing structure was not clear and added none of his contacts believed Rogun would ever be built. He also noted that if RusAl head Oleg Deripaska gains control of the TadAZ smelter, he would not need Rogun.

DUSHANBE 00000482 002.2 OF 002

EDUCATING DAVLATOV

17. (SBU) The Ambassador suggested to Pinerua and Khawaja that the IMF coordinate a one-day International Financial Institutions (IFIs) seminar on economic reforms for newly-appointed Presidential Advisor on Economic Affairs Matlubhon Davlatov (ref). Khawaja noted that the influential and reasonable Davlatov's appointment was one of the most important steps for Tajikistan so far in economic reform. Both Pinerua and Khawaja agreed to explore a conference or drafting a short economic reform priorities "cheat sheet" for Davlatov.

18. (SBU) COMMENT: The IMF's assessment provides one snapshot of Tajikistan's economic growth and coming challenges. Pinerua's stress on broad-based small- and medium-enterprise development tracks with Post's own concern that hydropower and infrastructure projects alone will not create long-term economic stability and may only concentrate economic prosperity in the hands of an elite few. Despite the recent spate of press releases announcing potential investments from Kazakhstan, Dubai and elsewhere, Tajikistan can only attract long-term foreign direct investment with transparent regulations and continued substantive economic reform. END COMMENT.
HOAGLAND